

AR06

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University of Alberta  
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Edmonton, Alberta T6G 2R8



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**RESOURCES LTD.**

**Annual  
Report  
1994**

# Corporate Profile

Callisto Resources Ltd. is a junior gas company with operations in Saskatchewan. Management has succeeded in assembling a significant base from which continued growth of the company is assured.

The Company will continue to identify potential acquisition, development and corporate opportunities in profitable oil and gas prospects in Western Canada.

Callisto's common shares are listed for trading on the Alberta Stock Exchange under the trading symbol "CLB".

## Annual Meeting

The Annual General Meeting of the shareholders of Callisto Resources Ltd. will be held on May 31, 1995, at 10:00 a.m. in the Plaza Room of the Metropolitan Centre, 333 Fourth Avenue S. W., Calgary, Alberta. Shareholders unable to attend are encouraged to complete and return the accompanying form of Proxy.

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# Highlights

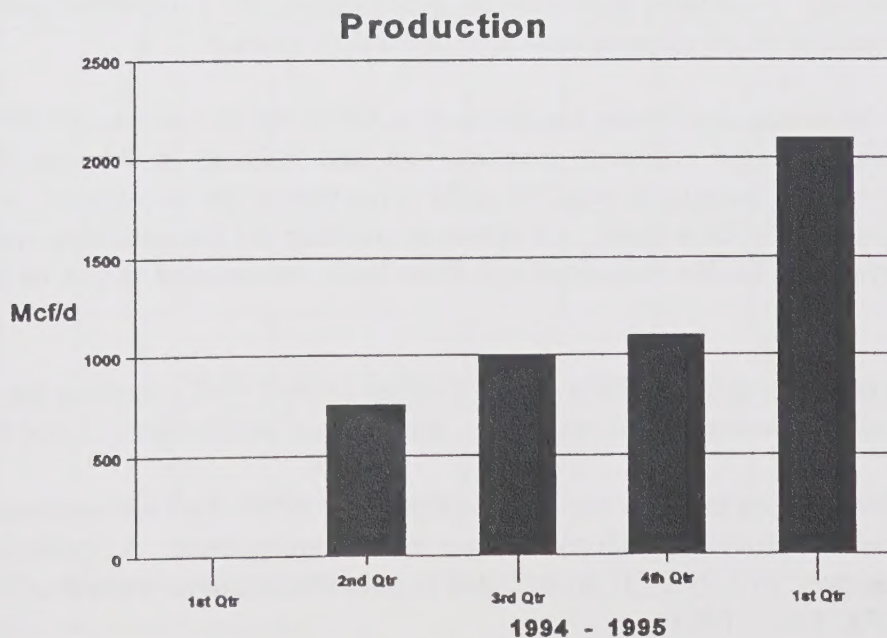
## Fourth Quarter, 1994

- Raised \$685,295 through the issuance of Flow Through Common Shares
- Shot 2 miles of seismic on company lands (100% Working Interest)
- Drilled a dual zone gas well at Fort Pitt (100% Working Interest)
- Acquired Fort Pitt Compression Station (20% Callisto, 80% Callisto Gas Plant Limited Partnership)
- Year end production of 1,100 Mcf/d (33% increase from May 1, 1994)
- Proved reserves increased to 5.03 BCF; a 344% increase.

## First Quarter, 1995

- Shot additional 20 miles of seismic at Fort Pitt (100% Working Interest)
- Drilled additional development well at Fort Pitt (100% Working Interest)
- Doubled production to 2,100 Mcf/d
- Renegotiated terms of debt repayment and increased operating line of credit

## Production





# Report to Shareholders

Callisto is pleased to present its annual report for the year ended December 31, 1994. This is the first annual report of the company subsequent to the beginning of operations in the second quarter of 1994. Financial results reflect the eight months of activity following Callisto's acquisition of a land and production base at Fort Pitt, Saskatchewan. Results expressed in this report are for the 12 months ending December 31, 1994.

The focus during 1994 was to establish a controlled base of production and drilling opportunities to set a solid foundation from which to build the company. With a 100% working interest at Fort Pitt the company was able to quickly enhance production and reserves. During 1994 Callisto drilled 2 gross wells resulting in 2 net gas wells.

Fort Pitt has provided an attractive core asset base. Callisto has capitalised on the opportunity with immediate gains in production and reserves by drilling low risk wells at 100% working interest. Further enhancements have been made possible with the acquisition of the compressor station.

Production levels increased as a result of a focused development plan, to a level from which the company now has the flexibility to pursue and execute similar opportunities in Alberta and Saskatchewan. Long range plans are to deploy capital in areas where Callisto can maintain high working interests, more balance between oil and gas, and in areas with longer reserve life.

## Fort Pitt, Saskatchewan

Identification of the potential development of shallow gas reserves in this areas resulted in the staged acquisition of a significant land position. In March the company purchased four sections of 100% lands (2,560 gross and net acres). These lands included a gas gathering line, and a suspended gas well which was subsequently converted to a water disposal well early in the third quarter.

April 25th, 1994 was the closing date for the acquisition of an additional 17 sections of 100% lands (10,880 acres). This acquisition brought Callisto's gross and net land holdings in the area to 13,440 acres. Production from two wells on these lands was 750 mcf/d at the time of the acquisition. A suspended well and a cased well were also on these lands. An option to purchase the gas gathering system and the gas compression and dehydration facility associated with these lands was secured as part of the well and land acquisition.

During the third quarter the company drilled a 100% Working Interest well to replace the suspended well. Production of this well commenced in October, 1994, bringing net production to 1,000 Mcf/d.

An outpost well (100% Working Interest) was drilled in December 1994. This well delineated the main gas producing zone, as well as proving significant reserves in a secondary zone. A significant portion of the increase in proved reserves, to 5.03 BCF, is attributed to pool extensions as a result of this well.

Shooting of twenty miles of additional seismic was initiated prior to year-end, with the completion of the



seismic programme in early January, 1995. Drillable development locations have been confirmed by this seismic, as well as new leads to further enhance the property.

Callisto and a limited partnership managed by independent third parties purchased the compression and dehydration facility, along with the gathering system, on December 30, 1994. This acquisition gives the company control of its production and processing facilities.



- COMPANY LANDS (100% W I)
- PRODUCING GAS WELLS
- GAS PLANT
- WATER DISPOSAL WELL

# FORT PITT AREA Saskatchewan

## Reserves

A reserves evaluation was conducted in February, 1995, with an effective date of December 31, 1994. This evaluation, by Brusset Consultants, is summarised in the following table and represents the reserves, and the value of those reserves, of the company on December 31, 1994.

### Reserve Volumes

	Company Interest	
	Gross MMcf	Net* MMcf
<b>Proved</b>		
Developed Producing	2,398	1,589
Undeveloped	2,640	1,949
<b>Total Proved</b>	<b>5,038</b>	<b>3,538</b>
Probable Additional (Risky at 50%)	500	414
<b>Total Proved Plus Probable</b>	<b>5,538</b>	<b>3,952</b>

\* After Royalties

### Reserve Values

	Present Worth Before Income Taxes		
	At 0%	M\$ Discounted	
		At 15%	At 20%
<b>Proved</b>			
Developed Producing	2037	1220	1060
Undeveloped	3343	1595	1307
<b>Total Proved</b>	<b>5380</b>	<b>2815</b>	<b>2367</b>
Probable Additional (Risky at 50%)	405	120	79
<b>Total Proved Plus Probable</b>	<b>5785</b>	<b>2935</b>	<b>2446</b>

The present worth values of the net reserves are presented before taxes, after deduction of all royalties, estimated capital and operating costs. The net revenues, before income taxes, are summarised for the proved and probable additional reserves including the plant costs and processing revenues, as well as possible additional processing revenues.



# Management's Discussion and Analysis

## Results of Operations

Gas revenues for the eight months of operations in 1994 were \$403,874. Production expenses, royalties and taxes totalled \$263,599. Other revenues of \$1,282 were earned from interest on cash reserves generated from the issue of shares. Depletion and Depreciation expense for the year was \$140,374. A low proved reserve base from the April acquisitions was used for the calculation. Full recognition of reserve additions in 1994 will reduce the depletion and depreciation rate in 1995.

Interest expense of \$21,355 was the cost of the bank debt incurred as part of the acquisition of the Fort Pitt properties. Costs associated with fund-raising and legal costs of the property and gas processing facilities along with one time charges associated with start-up costs resulted in general and administrative charges of \$143,490.

As a result of the above items the company had an operating income of \$140,275 before interest and a net loss of \$183,663 for 1994.

## Liquidity and Capital Resources


Shareholder's equity at December 31, 1994 was \$1,030,845. After capital expenditures of \$1,510,387 Callisto's cash position at December 31, 1994 was \$497,778. All capital expenditures were incurred on the Fort Pitt properties. A significant portion of the working capital was used to fund additional drilling, exploration, and production facilities in the first quarter of 1995.

Commitments in existence at December 31, 1994 are expected to provide the company with additional capital of \$504,000 from the warrants attached to shares issued as a private placement in March 1994. The warrants expire June 30, 1995.

A substantial portion of these funds and cash flow generated from the Fort Pitt property will be directed towards further development of the property, and new company generated prospects. Renegotiation of long term debt, and operating and acquisition credit lines will be used to further enhance the company's ability to take advantage of existing and future opportunities.

In summary, Callisto is well positioned to create shareholder value through profitable acquisitions, development and exploration for oil and gas.

We appreciate the continued support of our shareholders during this period of growth.



Mark Armanious, P. Geol.  
President & CEO

April 21, 1995

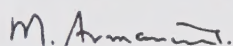


# Management's Report to Shareholders

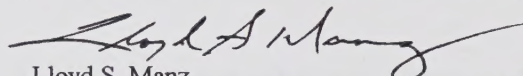
The accompanying financial statements of Callisto Resources Ltd. are the responsibility of management and have been prepared in accordance with accounting principles generally accepted in Canada and with policies described in the notes to the financial statements.

Integrity of the financial statements is management's responsibility. Where appropriate, management has made informed judgements and estimates for transactions affecting the current accounting period which cannot be finalised with certainty at the balance sheet date. Internal policies and procedures maintained by management provide reasonable assurance that the assets are safeguarded from loss or unauthorised use, and financial records are properly maintained.

The external auditors conducted an independent examination of corporate and accounting records in accordance with generally accepted auditing standards to express their opinion on the financial statements. The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. This responsibility is exercised through the Audit Committee of the Board. The Audit Committee has reviewed the financial statements and has reported to the Board of Directors thereon. The Board of Directors has approved the financial statements for issuance to the shareholders.



Mark Armanious  
President, & Chief Financial Officer



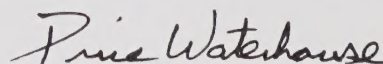
Lloyd S. Manz  
Vice-President, Exploration & Land

## Auditor's Report - To the Shareholders of Callisto Resources Ltd.

We have audited the balance sheet of Callisto Resources Ltd. as at December 31, 1994 and 1993, and the statements of operations and deficit and changes in financial position for the periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. These standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1994 and 1993, and the results of its operations and the changes in its financial position for the periods then ended in accordance with generally accepted accounting principles.



March 22, 1995

Chartered Accountants



# Callisto Resources Ltd.

## Balance Sheet

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December 31  
1994                      1993

### Assets

#### Current assets

Cash	\$ 97,778	\$180,972
Term deposit	400,000	-
Accounts receivable	82,570	2,103
Prepaid expenses	1,381	-
	<u>581,729</u>	<u>183,075</u>

Property, plant and equipment (Note 2)

1,068,513                      -

Incorporation costs

808                      808

\$1,651,050                      \$183,883

### Liabilities

#### Current liabilities

Accounts payable	\$ 298,205	\$ -
Current portion of long-term debt	<u>96,000</u>	<u>-</u>
	394,205	-

Long-term debt (Note 3)

206,000                      -

Reserve for future site restoration

20,000                      -

### Shareholders' Equity

Share capital (Notes 4 and 6)

1,218,413                      187,789

Deficit

(187,568)                      (3,906)

1,030,845                      183,883

\$1,651,050                      \$183,883

Approved by the Board

M. Amundson

Director

[Signature]

Director

# Callisto Resources Ltd.

## Statement of Operations and Deficit

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	Year ended December 31 1994	Period from incorporation on June 3, 1993 to December 31 1993
Operating income		
Petroleum and natural gas sales	\$ 403,874	\$ -
Royalties	(98,985)	-
Production expenses	<u>(164,614)</u>	<u>-</u>
	140,275	-
Interest income	<u>1,282</u>	<u>-</u>
	141,557	-
Expenses		
General and administrative	143,490	3,906
Interest on long-term debt	21,355	-
Depletion and depreciation	140,374	-
Provision for site restoration	<u>20,000</u>	<u>-</u>
	<u>325,219</u>	<u>3,906</u>
Loss for the year (Note 5)	(183,663)	(3,906)
Deficit, beginning of year	<u>(3,906)</u>	<u>-</u>
Deficit, end of year	<u><u>\$(187,568)</u></u>	<u><u>\$(3,906)</u></u>
Loss per share	<u>\$ (0.03)</u>	<u>\$ (0.01)</u>



# Callisto Resources Ltd.

## Statement of Changes in Financial Position

	Year ended December 31 1994	Period from incorporation on June 3, 1993 to December 31 1993
Operating activities		
Loss for the year	\$ (183,662)	\$ (3,906)
Add: Items not affecting cash		
Depletion and depreciation	140,374	-
Provision for site restoration	20,000	-
Common shares issued for consulting services	59,850	-
	<u>36,562</u>	<u>(3,906)</u>
Funds flow from operations	36,562	(3,906)
Change in non-cash working capital	<u>216,357</u>	<u>(2,911)</u>
	<u>252,919</u>	<u>(6,817)</u>
Financing activities		
Increase in long-term debt	302,000	-
Net proceeds from issue of shares and warrants	1,272,274	187,789
	<u>1,574,274</u>	<u>187,789</u>
Investing activities		
Additions to property, plant and equipment	(1,510,387)	-
	<u>316,806</u>	<u>180,972</u>
Increase in cash	316,806	180,972
Cash and term deposits, beginning of year	<u>180,972</u>	<u>-</u>
Cash and term deposits, end of year	<u>\$ 497,778</u>	<u>\$180,972</u>

# Callisto Resources Ltd.

## Notes to Financial Statements December 31, 1994

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### 1. Significant accounting policies

#### Petroleum and natural gas properties

The Company follows the full cost method of accounting for oil and gas expenditures. Capitalized costs include land acquisition, geological and geophysical expenses and costs of drilling both productive and non-productive wells. Capitalized costs are depleted by the unit-of-production method based on the Company's share of gross proven reserves of oil and gas as determined by an independent reserve report, with products being converted to a common unit of measure based on energy content. Petroleum and natural gas properties are subject to a ceiling test under which their carrying value is limited to the future net revenue (undiscounted) from production of estimated proven reserves, based on year end prices, plus the unimpaired costs of non-producing properties less estimated future administration costs and income taxes.

#### Flow-through shares

The resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. Petroleum and natural gas properties and share capital are reduced by the estimated cost of the renounced tax deductions when the expenditures are incurred.

#### Earnings per share

Earnings per share are calculated on the basis of the weighted average number of common shares outstanding during the respective fiscal years. Fully diluted earnings per share are anti-dilutive and therefore are not disclosed.

#### Income taxes

The Company follows the tax allocation method of accounting for corporate income taxes. Deferred income taxes are provided to the extent that current taxes have been reduced by claiming amounts, primarily exploration and development costs and capital cost allowance, in excess of the related depletion and depreciation expense recorded in the financial statements.

#### Future site restoration

Estimated future removal and site restoration costs, net of expected recoveries, are provided for over the life of the proven reserves on a unit-of-production basis. Costs are estimated each year by management based on current regulations, costs, technology and industry standards. Removal and site restoration expenditures will be charged to the accumulated provision account as incurred.

### 2. Property and equipment

	1994	1993
Petroleum and natural gas properties and equipment at cost	\$1,510,387	\$ -
Less		
Accumulated depletion and depreciation	(140,374)	-
Estimated cost of renounced tax deductions	(301,500)	-
	<u>\$1,068,513</u>	<u>\$ -</u>



# Callisto Resources Ltd.

## Notes to Financial Statements December 31, 1994

### 3. Long-term debt

	1994	1993
National Bank of Canada bank loan		
The demand loan bears interest at prime rate plus 1.50% and is payable in monthly principal payments of \$8,000 plus interest and is secured by a general security agreement, a general assignment of book debts and an undertaking to pledge oil and gas assets to the bank	\$302,000	\$ -
Less: Current portion	96,000	-
	<u>\$206,000</u>	<u>\$ -</u>

### 4. Share capital

#### (a) Authorized

- (i) Unlimited number of Common Voting Shares without nominal or par value.
- (ii) Unlimited number of First Preferred Shares.
- (iii) Unlimited number of Second Preferred Shares.

The first and second preferred shares may be issued in one or more series and the directors are authorized to fix the number of shares in each series and to determine the designation, rights, privileges, restrictions and conditions attached to the shares of each series.

#### (b) Issued

	1994		1993	
	Number of shares issued	Amount	Number of shares issued	Amount
Beginning of year	3,700,000	\$ 187,789	-	\$ -
Common shares issued for cash	2,176,000	620,800	3,700,000	230,000
Common shares issued for consulting services	171,000	59,850	-	-
Share issue costs (Note 6)	-	(33,776)	-	(42,211)
Flow-through common shares issued for cash	1,926,111	685,250	-	-
Estimated cost of renounced tax deductions	-	(301,500)	-	-
End of year	<u>7,973,111</u>	<u>\$1,218,413</u>	<u>3,700,000</u>	<u>\$187,789</u>

# **Callisto Resources Ltd.**

## **Notes to Financial Statements December 31, 1994**

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In March 1994 the Company issued 2,016,000 common shares with 1,008,000 warrants attached through a private placement for proceeds totalling \$604,800. Each warrant entitles the holder to purchase one common share at \$0.50 per share on or before June 30, 1995.

In July and August 1994, the Company issued 160,000 common shares through the exercise of outstanding stock options for proceeds totalling \$16,000.

In November and December 1994, the Company issued 1,926,111 flow-through shares through a private placement for proceeds totalling \$685,250.

During the year, the Company issued 171,000 common shares to its directors for a total value of \$59,850. The shares were issued for consulting services rendered to the Company in conjunction with the Company's normal business activities.

### **(c) Stock options**

The Corporation has established a stock option plan for the benefit of directors, employees and consultants of the Corporation. During the year 571,600 options were granted to purchase an aggregate of 571,600 Common shares. 370,000 of the options granted may be exercised at a price of \$0.10 per share and expire July 28, 1998. The remaining 201,600 options granted may be exercised at a price of \$0.30 per share and expire April 25, 1999.

## **5. Income taxes**

Due to the effects of the flow-through share issue and other differences not impacting the statement of operations, the net book value of the Company's assets exceeds the available future income tax deductions by approximately \$85,000.

## **6. Comparative figures**

In 1993, deferred income taxes of \$18,716 were recorded as a recoverable amount and as a reduction to share issue costs. The amount was recorded to recognize the future benefit of share issue costs deductible for income tax purposes. This amount was recorded in error and as a result the comparative figures have been adjusted as follows. Deferred income taxes previously recorded as \$18,716 has been adjusted to \$Nil. Share issue costs previously recorded as \$23,495 have been adjusted to \$42,211. Total share capital previously recorded as \$206,505 has been adjusted to \$187,789.



# Corporate Information

## Head Office

610, 435 - 4th Avenue S.W.,  
Calgary, Alberta, Canada  
T2P 3A8  
Tel: (403) 263-0433  
Fax: (403) 263-1723

## Board of Directors

Mark Armanious\*, P. Geol.  
President & Chief Executive Officer  
Callisto Resources Ltd.  
Calgary, Alberta

J. Gordon Ironside\*  
President & Chief Financial Officer  
Blue Range Resource Corporation  
Calgary, Alberta

Lloyd S. Manz, B. Sc. (Eng.)  
Vice-President, Exploration & Land  
Callisto Resources Ltd.  
Calgary, Alberta

V. Freeman Maxwell\*, P. Eng.  
Callisto Resources Ltd.  
Calgary, Alberta

\* Member of the Audit Committee

## Officers and Key Personnel

Mark Armanious, P. Geol.  
President & Chief Executive Officer

Lloyd S. Manz, B. Sc. (Eng.)  
Vice-President, Exploration & Land

V. Freeman Maxwell, P. Eng.

## Auditors

Price Waterhouse  
Calgary, Alberta

## Bankers

National Bank of Canada  
Calgary, Alberta

## Evaluation Engineers

Brusset Consultants  
Calgary, Alberta

## Transfer Agent and Registrar

Montreal Trust  
Calgary, Alberta

## Legal Council

Carscallen Lockwood Cormie  
Calgary, Alberta

## Stock Listing

The Alberta Stock Exchange  
Symbol "CLB"

